

February 29, 2012

Fleischmann Introduces H.R. 4060, the Freeze Government Spending Act

Representative Fleischmann (R-TN) recently introduced the Freeze Government Spending Act of 2012 (H.R. 4060). The legislation reduces the current spending caps in the Budget Control Act to \$949 billion in 2013 (compared to the cap in the Budget Control Act of \$1.047 trillion). This is a 9% cut compared to last year. This would also return discretionary spending to below \$1 trillion for the first time since 2008.

The legislation then *freezes* spending at the \$949 billion level through 2021. By contrast, under the Budget Control Act, the spending cap increases to \$1.234 trillion in FY 2021. With spending caps set at these lower levels, the bill repeals the \$1.2 trillion of sequestration under the Budget Control Act. Instead, the caps under this bill would require Congress to save more than this amount, but to do so through the normal budget process so that defense would not be singled out for the large cuts under the Budget Control Act.

Quote of the Week:

“The second vice is lying, the first is running in debt.”

-Benjamin Franklin

In total, the bill would save \$856 billion more than the Budget Control Act. According to the author, it also saves \$1.66 trillion compared to President Obama’s FY 2013 budget proposal.

To cosponsor H.R. 4060, the Freeze Government Spending Act of 2012, please contact Alek Vey in the Fleischmann office at 225-3271 or alek.vey@mail.house.gov.

GAO Report Documents Duplicative Federal Programs

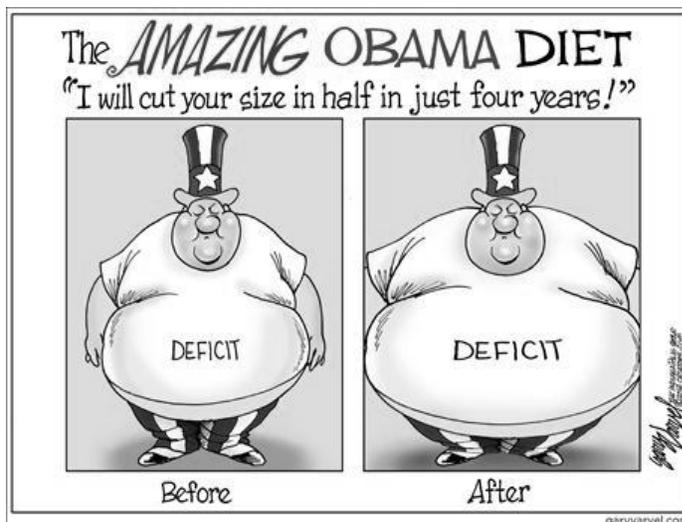
Yesterday, the Government Accountability Office (GAO) [released](#) a report on duplication in government spending (see full report [here](#)). According to the GAO, the government could save tens of billions of dollars by reforming federal spending so as to get rid of overlapping government programs. Some highlights of the report:

- There are 15 financial literacy programs (3 of them were created in the Dodd-Frank law).
- There are 209 programs aimed at Science, Technology, Engineering, and Mathematics (STEM) education.
- There are more than 200 Department of Justice grants programs.
- There are 94 initiatives to encourage “green buildings.”
- There are 14 programs on diesel emissions.

Senator Coburn commented on the findings: “Eliminating duplicative spending should be the easy part... Congress has done almost nothing to address problems areas GAO has already identified.”

CBO: Deficit \$349 Billion in First Four Months of FY 2012

According to CBO, the federal government has run up a \$349 billion deficit in the first four months of FY 2012. This is higher than any annual deficit prior to FY 2003. To date, the federal government has spent \$1.14 trillion and collected \$791 billion in revenues. The President’s recent budget submission proposes a \$1.3 trillion deficit for FY 2012. If the final deficit for this year exceeds \$1 trillion, this will be the fourth year in a row that has happened.



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THE WALL STREET JOURNAL.

The Other GM Bailout

Wall Street Journal Editorial

President Obama appeared at a United Auto Workers tent revival meeting Tuesday, and he made several notable claims. Critics of the Detroit bailout of 2008-09 are motivated, apparently, by their antipathy to American workers. The alternative to a government rescue was letting the entire auto industry "die." But one particular claim stood out. Mr. Obama said the bailouts succeeded not "because of anything the government did."

The lacuna in this account is the \$81.8 billion that taxpayers surrendered to General Motors and Chrysler, and we detailed the many other costs in a February 25 editorial "Halftime in Detroit." As it happens, however, we missed one big thing the government did that deserves more attention: GM's tax gift courtesy of the U.S. Treasury.

Corporations in the red, as GM was for years, are allowed to carry forward net operating losses that reduce their future tax liability when they are making money. GM had accumulated about \$45 billion in such profit-shielding chits by 2008, with a book value of about \$18 billion. When companies enter bankruptcy, carry-forwards disappear or are greatly limited under IRS section 382, which kicks in when ownership changes by more than 50 percentage points.

The point is to prevent companies from buying assets solely for tax arbitrage or tax avoidance. But starting in 2009, Treasury began to issue regulatory "notices" that suspend this law when it comes to Treasury-owned stock. The provisions also apply to AIG and Citigroup.

So when GM entered bankruptcy in June 2009, the government swapped the debt the auto maker owed it as a creditor for 61% of "new GM," while handing another chunk to the United Auto Workers. But new GM also inherited the accumulated net operating losses that would have turned into a pumpkin in normal bankruptcy.

In a 2011 working paper, J. Mark Ramseyer of Harvard and Eric Rasmusen of Indiana University argue that by manipulating corporate tax rules by fiat, "Treasury gave the firm (and its owners, including the UAW) \$18 billion more in assets." Thus a Democratic Administration gave "a massive tax benefit to one of the party's biggest supporters." The other problem is that the move put Ford and GM's other competitors at a disadvantage, as bailouts always do.

Mr. Obama crowed yesterday about GM's "highest profits in its 100-year history." We'd be interested to hear how its effective tax rate compares with Warren Buffett's secretary's.

